

ON-FILE NSC RELEASE INSTRUCTIONS APPLY

MINUTES
ECONOMIC POLICY COUNCIL

November 26, 1985
1:00 p.m.
Roosevelt Room

Attendees: Messrs. Baker, Baldrige, Brock, Herrington, Miller, Yeutter, Sprinkel, Whitehead, Darman, Norton, Smart, Burnley, Svahn, Kingon, McAllister, Danzansky, Driggs, Gibson, Gray, Hoffman, Sethness, Stucky, Wallis, and Woods; Ms. Crawford, Ms. Eickhoff, Ms. Risque, and Ms. Steelman.

Secretary Baker, noting a report in the New York Times that Canadian rules restricting foreign ownership of Canadian publishing houses were jeopardizing Gulf and Western Industries' acquisition of Prentice-Hall, Inc. and its Canadian publishing unit, asked the TPRG to review the issue of Canadian barriers to foreign ownership and develop possible options for remedying the situation.

1. Canadian Lumber

Ambassador Yeutter stated the issue of Canadian lumber is critical to discussions regarding the free trade arrangement with Canada. Several key members of Congress have urged Ambassador Yeutter to begin efforts to address Canadian lumber practices before the President notifies Congress of his intention to negotiate a free trade arrangement with Canada. He noted that the Canadians are amenable to talking about the lumber issue, but are uncomfortable with calling these talks negotiations. He stated that the TPRG recommended that the talks with the Canadians focus on:

1. Addressing the questionable elements in Canada's stumpage systems;
2. Eliminating Canadian log export restrictions;
3. Reducing Canadian tariffs on imports of U.S. finished wood products;
4. Encouraging Canada to adopt satisfactory plywood performance standards; and
5. Working with Canada to open up third country markets.

Dr. Sprinkel expressed support for such a policy, noting that it is consistent with the President's policy of opening markets.

Minutes
 Economic Policy Council
 November 26, 1985
 Page two

The Council generally agreed with the recommendations of the TPRG, but expressed skepticism about the practicality of working with the Canadian government to open third country markets.

The Council also discussed the timing for the President to notify Congress that he was entering into negotiations with Canada for a free trade arrangement. The Council agreed that pursuing a free trade arrangement with Canada would be judged as one of the major initiatives of the Reagan presidency and the President should highlight his intention in his State of the Union Address. Mr. Whitehead stated that Canada was anxious to have the President notify the Congress of his intention as soon as possible. The Council agreed that Ambassador Yeutter and Mr. Whitehead should discuss with the Canadians the idea of the President holding off on notifying Congress until after the State of the Union address.

2. Section 301 Cases

Ambassador Yeutter provided an update on the progress of negotiations with the EC and the Japanese on the Section 301 investigations with a December 1 deadline. He expressed optimism that the EC dispute regarding canned fruit subsidies can be resolved. He noted that the EC Commission had accepted our proposal for a 25 percent reduction in the subsidy in the first year, and complete elimination afterward and explained that the EC Council of Ministers is now considering the proposal. Ambassador Yeutter suggested that the Japanese leather and leather footwear quotas will probably not be resolved.

3. Federal Home Loan Bank Board Section 406 Corporation

Ms. Eickhoff stated that the issue with regard to the Federal Home Loan Bank Board's (FHLBB) Section 406 Corporation, called the Financial Asset Disposition Association (FADA), is what steps, if any, the Administration should take to block or restrict the corporation. She stated that the thrift industry is in serious difficulty, with average tangible net worth of zero and \$1 trillion in liabilities. She suggested that a loss of confidence in the thrifts would have enormous implications for the economy.

Ms. Eickhoff stated that FADA is not designed to solve the problems of the thrift industry, but to avoid the Office of Personnel Management salary classifications, which limits the salaries paid Federal Savings and Loan Insurance Corporation (FSLIC) employees. She pointed out that FADA's charter is written in a very broad manner, permitting it to engage in any activity that a thrift institution might. She explained that the Working Group on Financial Institutions Reform was unanimous in the belief that FADA's charter should be restricted. She noted,

Minutes
Economic Policy Council
November 26, 1985
Page three

however, that the FHLBB would have the ability to change FADA's charter at any time, possibly revising any restrictions placed on FADA now. Ms. Eickhoff stated that the Working Group had developed three options for the Council's consideration:

1. Continue jawboning the FHLBB to restrict the purpose and activities of FADA and to create a pilot program for auctioning bad assets held by FSLIC.
2. Use OMB's apportionment process to: a) block; or b) restrict FADA.
3. Continue jawboning the FHLBB to restrict the purpose and activities of FADA and to create a pilot program for auctioning bad assets held by FSLIC. Convey to the FHLBB that OMB will initiate apportionment proceedings unless the FHLBB specifies that: a) FADA will not accept deposits or directly issue debt; b) FADA will not purchase assets directly from thrifts; c) profit interests in FADA will be held only by FSLIC; and d) FADA will not provide a significant amount of seller financing.

Secretary Baker cautioned that, given the importance of maintaining confidence in the thrifts, the Administration not create a suggestion of a conflict with the thrifts or the FHLBB. He noted that FSLIC has only 25 people disposing of bad assets, while the FDIC has 2,500 people, and suggested that strengthening FSLIC's personnel might diminish FSLIC's reliance on FADA.

Ms. Eickhoff stated that the number of employees is not as much the problem as are the pay ceilings. She stated that after FSLIC has finally trained an asset disposition specialist, the specialist can find a better paying job elsewhere, and FSLIC cannot compete to retain his or her service by offering a substantial salary increase.

Secretary Baker suggested that the Administration might seek to free the FSLIC from the pay ceilings in exchange for the desired restrictions on FADA. FSLIC would then be operating on an equal footing with the Federal Deposit Insurance Corporation (FDIC).

Mr. Miller stated that the financial exposure the Federal Government for the FSLIC could be enormous. He noted, however, that apportionment proceedings against the FHLBB process would be a draconian measure and that such a course probably would not be the best approach to restricting FADA. He stated that the FHLBB's actions creating FADA are a good illustration of the difficulty of controlling independent agencies. Mr. Darman suggested that apportionment might be counterproductive; Congress might respond by reducing OMB's regulatory authorities.

Minutes
Economic Policy Council
November 26, 1985
Page four

Decision

The Council agreed that Mr. Miller would seek to encourage the FHLBB and FADA to place restrictions on FADA's charter, offering to free FSLIC from the pay ceilings in exchange.